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Message Text

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42
ORIGIN OPIC-12

INFO OCT-01 ARA-16 ISO-00 EB-11 AID-20 TRSE-00 COME-00 L-03

H-03 SS-15 NSC-10 OMB-01 /092 R

DRAFTED BY: OPIC/GC:CHUNT
APPROVED BY: EB/IFD/OIA-MKENNEDY
EB/IFD/OIA, WCOURTNYE ARA/BC-JKARLEASHIAN
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R 011722Z OCT 73
FM SECSTATE WASHDC
TO AMEMBASSY SANTIAGO

C O N F I D E N T I A L STATE 194717

E.O. 11652: GDS
TAGS: EIND, CI

SUBJECT: CONTINENTAL COPPER- SAGASCA

REF: STATE 187537 (PARA. 6)

1. IN SEPTEMBER 19 MEETING WITH OPIC REP CONTINENTAL CHARIMAN MORTIMER GORDON GAVE GENERALLY ENCOURAGING PICTURE OF OPERATIONAL SITUATION AND FINANCIAL PROSPECTS AND APPEARED OPTIMISTIC RE PROSPECTS FOR WORKING OUT SOLUTIONS TO REMAINING PROBLEMS WITH NEW GOC.

2. (RECENT) DAILY PRODUCTION FIGURES HAVE RECENTLY SHOWN MARKED IMPROVEMENT, STARTING EVEN BEFORE COUP, AND LABOR RELATIONS ARE GOOD.

3. JULY AND AUGUST ESCUDO ADVANCES WERE MADE BY CENTRAL BANK. GORDON THOUGHT SEPTEMBER ADVANCE UNDER JULY 1973 AGREEMENT MIGHT NOT BE NEEDED, ANTICIPATING COVERAGE OF IMMEDIATE WORKING CAPITAL NEEDS BY CONVERSION OF PORTION OF PAYMENTS DUE UPON LOADING OF COPPERSHIPMENT SET FOR WEEK OF SEPTEMBER 24. SAGASCA HOPES TO EASE CASH FLOW PROBLEMS BY GETTING DOWA TO MAKE SOME PRYMENT ON DELIVERY TO DOCK AND BEFORE
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4. MAJOR PROBLEM AFFECTING FINANCIAL VIABILITY OF SAGASCA REMAINS, GORDON SAYS, DISCRIMINATORY RATE AT WHICH ESCUDOS MUST BE PURCHASED.
HE SEES SAGASCA GETTING OUT OF THE WOODS QUICKLY ON EXTERNAL FINANCIAL POSITION, PREDICTING WORKING OFF INTEREST ARREARAGE BY YEAR-END AND RETURN TO AMORTIZATION SCHEDULE BY MARCH. THESE PROJECTIONS, HOWEVER, WERE UNDERSTOOD TO BE BASED ON PREMISE IT WOULD NOT CONTINUE TO BE NECESSARY TO CONVERT SALES PROCEEDS AT 45/1 TO MEET ESCUDO NEEDS.

5. CONTINENTAL WOULD CLEARLY PREFER TO SEE SAGASCA CONTINUE UNDER THE ORIGINAL DECREE. THE FINANCIAL AND TECHNICAL BIND THAT LED TO THE RESTRUCTURING TENTATIVELY AGREED TO IN JULY WAS LARGELY OF GOC'S MAKING THROUGH EXCHANGE CONTROL, LABOR AND CREDIT POLICIES. EXCHANGE RATE RELIEF SHOULD MAKE IT UNNECESSARY TO RESORT TO INCREASED CODELCO EQUITY AND REDUC-TION OF CONTINENTAL ROLE IN MARKETING IN EXCHANGE FOR HELP ON NEAR TERM ESCUDO WORKING CAPITAL NEEDS. GORDON, HOWEVER, IN NO WAY INDICATED THAT CONTINENTAL WOULD BALK IF OTHERS STILL WANTED TO PROCEED ON BASIS OF JULY UNDERSTANDING, AND WOULD NOT WANT STATUS OF THIS AGREEMENT RAISED IN ANY USG CONTACT WITH GOC.

6. WE HAVE HAD REPORTS THAT GOC INTENDS TO PROVIDE RELIEF ON EXCHANGE RATES. ANY ENCOURAGEMENT THAT YOU BELIEVE CAN APPROPRIATELY BE GIVEN TO SUCH STEPS WOULD BE HELPFUL. THE BURDEN OF THE UP'S DISCRIMINATORY RATE STRUCTURE HAS FALLEN ON THE RELATIVELY SMALL REMAINING PRIVATE OWNERSHIP INTERESTS IN THE MINING SECTOR. SUCH ACTION WOULD BE LOW-PROFILE, BUT TANGIBLE DEMONSTRATION OF ATTIITUDE TOWARD PRIVATE FOREIGN INVESTMENT. HEALTHY PRIVATE SECTOR OPERATIONS LIKELY TO "REPAY" BANCO CENTRAL QUICKLY FOR EXCHANGE RATE RELIEF THROUGH INCREASED FOREIGN EXCHANGE REVENUE. KISSINGER

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